



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Teachers' Retirement System

*For the Fiscal Year Ended
June 30, 2007*

NOVEMBER 2007

LEGISLATIVE AUDIT
DIVISION

07-09

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A 133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

November 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Teachers' Retirement System (system), a component unit of the state of Montana for the fiscal year ending June 30, 2007. The financial statements include information for the fiscal year ended June 30, 2006. The objectives of our financial audit were to determine the system's compliance with direct and material state laws and regulations related to the financial statements, obtain an understanding of the system's control processes, determine if the financial statements of fiduciary net assets and changes in fiduciary net assets at June 30, 2007, are fairly presented, and determine the implementation status of the prior audit recommendation.

Our previous financial-compliance report for the two years ending June 30, 2006 contained a recommendation related to the actuarial soundness of the system. At July 1, 2007, an actuarial valuation of the system reported that the unfunded actuarial accrued liability (UAAL) of the system was \$768.9 million, amortized at 28.6 years. A 30 year amortization period is the maximum acceptable amortization period specified by the Governmental Accounting Standards Board and in accordance with the funding policy of the Teacher's Retirement Board.

The system is funded by contributions from active members, their employers, the state General Fund, and investment earnings. The Montana Board of Investments manages the system's investment portfolio. Contributions are exempt from income tax until benefits are drawn against those contributions.

The 2007 legislature authorized a \$50 million general fund transfer to the system and increased General Fund contributions as shown below.

	<u>Contributions as a Percent of Pay</u>			
	<u>Members</u>	<u>Participating Employers</u>	<u>State General Fund Contribution*</u>	<u>Total</u>
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 to June 30, 2009	7.15%	7.47%	2.11%	16.73%
July 1, 2009 and after	7.15%	7.47%	2.49%	17.11%

*The General Fund contribution is for members employed by a school district or community college. Other member employers will contribute 9.47 percent from July 1, 2007 until June 30, 2009, and 9.85 percent after July 1, 2009.

In accordance with section 19-20-604, MCA, the state's General Fund contribution will be reduced by 0.11 percent when the amortization period of the system's UAAL is 10 years or less according to the system's latest actuarial valuation.

We issued an unqualified opinion on the system's financial statements for the two fiscal years ended June 30, 2007. Our opinion on the system's financial statements is also contained in the Teachers' Retirement System annual report. The annual report contains additional background, statistical, and actuarial information not included in this audit report, which may be of interest to legislators or the public. Copies of the annual report can be obtained from the Teachers' Retirement System or accessed on its website. The annual report for fiscal year 2006-07 is expected to be available in December 2007.

The system's response to our audit is on page B-1. We thank the Executive Director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

APPOINTED AND ADMINISTRATIVE OFFICIALS

Teachers' Retirement Board

		<u>Term Expires</u>
Tim Ryan, Chair	Big Fork	7/1/09
Kari Peiffer, Vice Chair	Kalispell	7/1/12
Mona Bilden	Miles City	7/1/11
Darrell Laymen	Glendive	7/1/11
James Turcotte	Helena	7/1/10
Scott Dubbs	Lewistown	7/1/08

Administrative Officials

David L. Senn, Executive Director

Tammy Rau, Deputy Executive Director

Dan Gaughan, Accounting/Fiscal Manager

For additional information concerning the Teachers' Retirement System, contact:

David L. Senn, Executive Director
 1500 Sixth Avenue
 PO Box 200139
 Helena MT 59620-0139
 E-mail: dsenn@mt.gov

LEGISLATIVE AUDIT DIVISION

A-1

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Fiduciary Net Assets of the Teachers' Retirement System (system), a component unit of the state of Montana, as of June 30, 2007 and 2006, and the related Statement of Changes in Fiduciary Net Assets for each of the fiscal years then ended. These financial statements are the responsibility of the Teachers' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System as of June 30, 2007 and 2006, and the changes in fiduciary net assets for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Contributions from the Employer and Other Contributing Entities are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Teachers' Retirement System. The Supporting Schedule of Administrative Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 11, 2007

TEACHERS' RETIREMENT SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Montana Teachers' Retirement System's (TRS) Comprehensive Annual Financial Report provides a narrative overview of the TRS's financial activities for the fiscal year ended June 30, 2007 with comparative totals for the fiscal years ended June 30, 2006 and 2005. Please read this in conjunction with the financial statements with accompanying footnotes, required supplementary information with notes, and supporting schedule.

Overview of the Financial Statements

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the System's ongoing plan perspective.

The financial section consists of two financial statements with footnotes, two schedules of historical trend information with footnotes, and one supporting schedule. The Statement of Fiduciary Net Assets reflects the resources available to pay benefits to retirees and beneficiaries. The Statement of Changes in Fiduciary Net Assets presents the changes that occurred in those resources for the fiscal year ended.

The Schedule of Funding Progress presents historical trend information about the actuarially funded status for the TRS plan from a long-term, ongoing perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Contributions from the Employer and Other Contributing Entities displays historical trend data of the annual required employer contributions and the actual contributions made by employers in relation to the requirement.

The Schedule of Administrative Expenses is a presentation of what comprises the administrative expense item as reported on the Statement of Changes in Fiduciary Net Assets.

Financial Highlights

- The 2007 Legislature infused \$50,000,000 into the TRS Pension fund to help address the issue of the System's actuarial soundness.
- The TRS plan net assets increased by \$463.5 million in 2007 and \$258.7 million in 2006 representing a 16.9% and 10.4% increase respectively.
- Net investment income (fair value of investments plus investment income less investment expense) increased in both 2007 and 2006, \$259.7 million and \$36.1 million respectively.
- Pension benefits paid to beneficiaries and plan members increased 6.3% and 6.7% for the last two fiscal years respectively.

Condensed Financial Information (in millions)

Fiduciary Net Assets	FY2007	FY2006	FY2005	2007 Percent Inc/(Dec)	2006 Percent Inc/(Dec)
Cash/Short-term Investments	\$ 88.4	\$ 71.8	\$ 31.9	23.1	125.1
Receivables	21.5	21.0	21.2	2.4	(0.9)
Investments (fair value)	3,256.3	2,704.4	2,540.6	20.4	6.4
Capital Assets (net)	0.3	0.7	0.8	(57.1)	(12.5)
Total Assets	3,366.6	2,797.9	2,594.4	20.3	7.8
Liabilities	157.3	52.2	107.2	201.3	(51.3)
Net Assets	\$3,209.3	\$2,745.8	\$2,487.1	16.9	10.4

Changes in Fiduciary Net Assets

Additions:

Employer Contributions	\$ 61.9	\$ 58.3	\$ 57.2	6.2	1.9
Plan Member Contributions	56.5	53.3	52.9	6.0	0.8
Other Contributions	0.7	0.7	0.7	0.0	0.0
Payment from State of Montana	50.0	100.0	0.0	(50.0)	NA
Net Investment Income	484.5	224.8	188.7	115.5	19.1
Total Additions	653.7	437.0	299.4	49.6	46.0

Deductions:

Benefit Payments	182.8	172.0	161.2	6.3	6.7
Withdrawals	5.6	4.9	4.3	14.3	14.0
Administrative Expenses	1.4	1.6	1.6	(12.5)	0.0
Loss on Intangible Asset	0.5	0.0	0.0	NA	NA
Total Deductions	190.4	178.4	167.1	6.7	6.8
Net Increase in Net Assets	\$ 463.4	\$ 258.6	\$ 132.3	79.2	95.5

Financial Analysis

- The increase from year-to-year in cash/short-term investments is due primarily to the change in the number of shares held in the Short Term Investment Pool.
- The increase in investments for 2007 and 2006 reflects the positive change in the fair market value of our investment holdings.
- The continuing decrease in capital assets is due to the depreciation and amortization of the assets and a loss on the write-off of previously capitalized software costs in 2007.
- The significant increase and decrease in liabilities occurs due to the security lending collateral activity conducted by the Montana Board of Investments.
- The significant increase in net investment income was due mostly to a \$200.6 million increase in the unrealized net appreciation in the fair value of our investments and a \$62.7 million increase in investment earnings in 2007 and a \$40.8 million increase in the unrealized net appreciation in the fair value of our investments for 2006. Both are the result of the positive performance of the US and international stock markets.
- The increase in benefit payments from year-to-year reflects an increase in the number of retirees and beneficiaries plus the 1.5% guaranteed annual benefit adjustment.

Overview of the Actuarial Funding

The TRS plan experienced an asset gain over the last year. The market assets earned 17.64% net of investment and operating expenses. The actuarial assets earned 10.22% which is 2.47% above the actuarial assumption of 7.75%. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption. The following table compares the annual returns for the past six years.

Fiscal Year	Market Return	Actuarial Return	Actuarial Return over 7.75 % Assumption (8.00% prior to 7/1/04)
7/1/2001 to 6/30/2002	(7.3)%	3.8%	(4.2)%
7/1/2002 to 6/30/2003	6.2%	1.6%	(6.4)%
7/1/2003 to 6/30/2004	13.3%	2.1%	(5.9)%
7/1/2004 to 6/30/2005	8.0%	2.7%	(5.0)%
7/1/2005 to 6/30/2006	8.9%	8.5%	0.7%
7/1/2006 to 6/30/2007	17.6%	10.2%	2.5%

Although the actuarial return on assets has outperformed the assumption in the past two years, the chart above shows that the actuarial return on assets has under performed the assumption more than it has exceeded the assumption in the last six years. These losses led to the need for additional contributions in the 2005 and 2007 legislative Sessions.

The July 1, 2006 actuarial valuation set actuarial assets equal to market value. At their May 2007 meeting, the Retirement Board adopted an actuarial asset method with gains and losses after July 1, 2006 smoothed over a four year period. Due to the superior returns in the year ended June 30, 2007, the System has not yet recognized \$203 million in market value gains. This will help to stabilize funding if the Trust's investment return is less than the actuarial assumption for a short period.

The 2007 Legislature in going forward addressed the funding status of the TRS pension fund to help ensure the unfunded actuarial accrued liability (UAAL) can be amortized over a period not exceeding 30 years. Per Governmental Accounting Standards Board (GASB) statement number 25 the maximum acceptable amortization period is 30 years. Effective July 1, 2007 the employer contribution rate increased 2% from 7.47% to 9.47%. Beginning July 1, 2009 the rate will increase another .38% to a total of 9.85%. Also the supplemental contribution to ensure university member benefits are funded by university employers was increased from 4.04% to 4.72% of Optional Retirement Plan (ORP) member pay effective July 1, 2007.

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Cash/Cash Equivalents-Short Term		
Investment Pool (Note B)	\$ 88,435,655	\$ 71,802,925
Receivables:		
Accounts Receivable	15,159,435	15,277,642
Interest Receivable	6,214,473	5,556,602
Due from Primary Government	170,489	208,840
Total Receivables	\$ <u>21,544,397</u>	\$ <u>21,043,084</u>
Investments, at fair value: (Note B)		
Mortgages	\$ 31,399,861	\$ 36,712,095
Investment Pools	3,059,618,387	2,607,713,723
Other Investments	8,236,796	8,056,730
Securities Lending Collateral	157,024,527	51,930,374
Total Investments	\$ <u>3,256,279,571</u>	\$ <u>2,704,412,922</u>
Assets Used in Plan Operations:		
Land and Buildings	\$ 193,844	\$ 193,844
Less: Accumulated Depreciation	(139,880)	(136,118)
Equipment	147,087	147,087
Less: Accumulated Depreciation	(131,200)	(129,561)
Prepaid Expense	9,812	4,452
Intangible Assets, net of amortization	246,113	607,086
Total Other Assets	\$ <u>325,776</u>	\$ <u>686,790</u>
TOTAL ASSETS	\$ <u>3,366,585,399</u>	\$ <u>2,797,945,721</u>
LIABILITIES		
Accounts Payable	\$ 128,299	\$ 88,974
Due to Primary Government	17,363	29,446
Securities Lending Liability (Note B)	157,024,527	51,930,374
Compensated Absences (Note B)	139,888	125,880
TOTAL LIABILITIES	\$ <u>157,310,077</u>	\$ <u>52,174,674</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ <u><u>3,209,275,322</u></u>	\$ <u><u>2,745,771,047</u></u>

*The accompanying Notes to the Financial Statements
are an integral part of this financial statement.*

TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
ADDITIONS		
Contributions:		
Employer	\$ 61,943,986	\$ 58,268,941
Plan Member	56,508,585	53,292,921
Other	720,266	693,226
Total Contributions	\$ <u>119,172,837</u>	\$ <u>112,255,088</u>
Misc Income	\$ 15,633	\$ 3,968
Payment from Primary Government (Note C)	50,000,000	100,000,000
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	\$ 354,302,356	\$ 153,737,011
Investment Earnings	137,540,095	74,818,519
Security Lending Income (Note B)	5,815,626	3,918,769
Investment Income/(Loss)	\$ <u>497,658,077</u>	\$ <u>232,474,299</u>
Less: Investment Expense	7,616,254	3,859,788
Less: Security Lending Expense (Note B)	5,509,847	3,827,250
Net Investment Income/(Loss)	\$ <u>484,531,976</u>	\$ <u>224,787,261</u>
Total Additions	\$ <u>653,720,446</u>	\$ <u>437,046,317</u>
DEDUCTIONS		
Benefit Payments	\$ 182,826,747	\$ 171,956,507
Withdrawals	5,594,541	4,876,148
Administrative Expense	1,434,103	1,579,155
Loss on Intangible Asset	501,575	0
Payment to Primary Government	205	0
Total Deductions	\$ <u>190,357,171</u>	\$ <u>178,411,810</u>
NET INCREASE (DECREASE) IN PLAN NET ASSETS	\$ 463,363,275	\$ 258,634,507
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	2,745,771,047	2,487,136,540
Prior Period Adjustment	141,000	0
END OF YEAR	\$ <u><u>3,209,275,322</u></u>	\$ <u><u>2,745,771,047</u></u>

*The accompanying Notes to the Financial Statements
are an integral part of this financial statement.*

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE A. DESCRIPTION OF THE PLAN

The Teachers' Retirement Board is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan, which provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college or unit of the university system. The system was established by the State of Montana in 1937 to provide retirement, death and disability benefits and is governed by Title 19, chapter 20, of the MCA. TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

At June 30, 2007, the number and type of reporting entities participating in the system were as follows:

Local School Districts	358
Community Colleges	3
University System Units	2
State Agencies	<u>8</u>
Total	371

At June 30, 2007, the system membership consisted of the following:

Retirees and Beneficiaries Currently Receiving Benefits	10,971
Terminated Employees Entitled to But Not Yet Receiving Benefits	10,516
Current Active Members:	
Vested	11,844
Non-vested	<u>6,344</u>
Total Membership	39,675

The pension plan provides retirement benefits and death and disability benefits. Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. A Guaranteed Annual Benefit Adjustment (GABA) of 1.5% is payable each January if the retiree has received at least 36 monthly retirement benefit payments prior to January 1 of the year in which the adjustment is to be made.

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The TRS, a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity, prepares its financial statements using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period when due and investment income is recognized when earned. Expenses including benefit payments and withdrawals are recorded when the corresponding liabilities are incurred.

Compensated Absences

Compensated absences represent 100 percent of accrued vacation and 25 percent of accrued sick leave for TRS personnel at June 30, 2007 and June 30, 2006.

Cash/Cash Equivalents and Investments

Cash and cash equivalents consist of funds deposited in the State Treasurer's pooled cash account and cash invested in the Short-Term Investment Pool. The Montana Board of Investments (BOI) manages the State's Unified Investment Program, which includes the TRS plan investments as required by Section 19-20-501, Montana Code Annotated. Per the Montana Constitution, Article VIII Section 13(3), investment of TRS assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of an enterprise of a similar character with similar aims.

Information about the primary government's (State of Montana) investments, including credit risk classification, can be obtained from the Department of Administration, Administrative Financial Services Division, at P.O. Box 200102, Helena, MT 59620-0102. Information on investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from Board of Investments at P.O. Box 200126, Helena, MT 59620-0126.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. The seven areas of investment include: Short-Term Investment Pool (STIP); Retirement Funds Bond Pool (RFBP); Montana Domestic Equity Pool (MDEP); Montana International Equity Pool (MTIP); Montana Private Equity Pool (MPEP), Montana Real Estate Pool (MTRP), and All Other Funds (AOF). The TRS Investment Portfolio is listed below:

TRS Investment Portfolio		
June 30, 2007		
Investment	Book Value	Fair Value
STIP	\$ 83,102,502	\$ 83,102,502
RFBP	774,052,977	766,016,545
MDEP	550,689,795	1,361,988,214
MTIP	311,631,000	629,321,268
MPEP	157,207,970	241,011,163
MTRP	60,321,000	61,281,197
AOF	39,823,176	39,636,659
Total	<u>\$ 1,976,828,420</u>	<u>\$ 3,182,357,548</u>

Securities Lending - Under the provisions of state statutes, BOI, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the BOI securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent, 105% in MTIP, of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent, 105% in MTIP, of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2007 and 2006, State Street Bank lent, on behalf of the BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal years 2007 and 2006 on the amount of the loans that State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2007 and 2006. Moreover, there were no losses during fiscal years 2007 and 2006 resulting from a default of the borrowers or State Street Bank.

During fiscal years 2007 and 2006, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. At year-end, the BOI had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed.

The investment risks for the pooled investments that TRS participates in are described in the following paragraphs.

Credit Risk - Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The STIP securities and the RFBP and AOF fixed income instruments with the exception of the U.S. government securities have credit risk as measured by major credit rating services. The risk is that the issuer of a STIP, RFBP or AOF security may default in making timely principal and interest payments. The BOI policy requires that STIP securities have ratings provided by Standard and Poors, Moody's or Fitch. For the RFBP and AOF fixed income investments the BOI policy requires the investments at the time of purchase to be rated an investment grade as defined by Moody's or Standard & Poors's rating services. (Please refer to the credit rating chart, Exhibit A, on the following page).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2007 and June 30, 2006, all STIP, RFBP, MDEP, MTIP and AOF securities were registered in the nominee name for the Montana BOI and held in the possession of the BOI's custodial bank, State Street Bank. All other investments are registered in the name of the Montana BOI.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, the BOI selected the effective duration method to disclose interest rate risk.

According to GASB Statement No. 40, interest rate disclosures are not required for STIP since STIP is a 2a-7-like pool. The RFBP and AOF investment policies do not formally address interest rate risk.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

Certain MTRP investments represent limited partnership investments in various foreign countries denominated in U.S. dollars. Per GASB Statement No. 40, no foreign currency risk disclosure is required for these limited partnership investments. Currency exposures within the MTIP portfolio may be hedged, partially or fully, at the discretion of the manager to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

The MTIP has significant investments in multiple foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

The TRS investments subject to credit and interest rate risk at June 30, 2007 and June 30, 2006 are categorized below:

Exhibit A

		Fair Value	Fair Value	Rating	Rating	Duration	Duration
	<u>Investment</u>	6/30/07	6/30/06	6/30/07	6/30/06	6/30/07	6/30/06
	STIP	\$ 83,102,502	68,736,963	A1+	A1+	NA	NA
	RFBP	766,016,545	717,609,842	AA	AA-	5.27	5.05

*NA (not applicable)

The securities in the RFBP have a maturity ranging from 8/15/2007 to 6/12/2050.

At June 30, 2007 the TRS share of the MTIP portfolio is approximately 39%. The investment security type MTIP as prepared by BOI is subject to foreign currency risk at June 30, 2007 as categorized below converted to value in U.S. dollars:

<u>Currency</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>%</u>
AUSTRALIAN DOLLAR	38,279,708	50,915,926	3.16%
AUSTRIAN SCHILLING	10,412,698	13,930,219	0.86%
BELGIUM FRANC	7,408,223	8,488,887	0.53%
BRAZILIAN REAL	1,764,304	1,981,024	0.12%
CANADIAN DOLLAR	29,320,055	35,890,007	2.23%
DANISH KRONE	9,316,434	13,037,001	0.81%
FINNISH MARKKA	11,822,681	14,315,298	0.89%
FRENCH FRANC	85,086,140	100,730,411	6.25%
GERMAN MARK	67,373,715	84,083,860	5.22%
GREEK DRACHMA	6,420,397	7,999,225	0.50%
HONG KONG DOLLAR	25,240,441	34,255,197	2.12%
HUNGARIAN FORINT	1,375,386	2,003,487	0.12%
INDONESIAN RUPIAH	741,043	982,562	0.06%
IRISH PUNT	1,987,111	1,975,479	0.12%
ISRAELI SHEKEL	1,817,817	1,871,608	0.12%
ITALIAN LIRA	31,499,283	37,031,582	2.30%
JAPANESE YEN	165,809,915	186,819,142	11.59%
SOUTH KOREAN WON	21,988,142	29,199,894	1.81%
MALAYSIAN RINGGIT	3,921,885	4,493,461	0.28%
MEXICAN PESO)	6,373,053	6,854,022	0.43%
NETHERLANDS ANTILLES GUILDER	39,963,600	45,873,044	2.85%
NEW ZEALAND DOLLAR	371,062	438,522	0.03%
NORWEGIAN KRONE	6,565,909	10,320,168	0.64%
PHILIPPINES PESO	639,398	1,226,819	0.08%
POLISH ZLOTY	567,298	768,410	0.05%
PORTUGUESE ESCUDO	2,213,129	2,884,776	0.18%
SINGAPORE DOLLAR	11,107,459	14,983,915	0.93%
SOUTH AFRICAN RAND	1,596,750	1,850,274	0.11%
SPANISH PESETA	18,128,964	20,443,255	1.27%
SWEDISH KRONA	21,940,872	23,603,481	1.46%
SWISS FRANC	54,609,564	61,902,461	3.84%
NEW TAIWAN DOLLAR	5,567,126	7,360,087	0.46%
THAI BAHT	4,546,002	5,404,292	0.34%
TURKISH LIRA	2,506,283	3,568,453	0.22%
U K BRITISH POUND	125,242,587	141,522,336	8.78%
U S DOLLAR (ADR)	35,061,310	42,010,883	2.61%
U S DOLLAR (Commingled Accounts)	368,158,834	529,923,232	32.87%
EQUITY TOTAL	1,226,744,578	1,550,942,700	96.21 %
STATE STREET EAFE ISPIFF	41,753,738	50,883,047	3.16%
STATE STREET STIF	10,245,619	10,245,619	0.64%
MTIP GRAND TOTAL	1,278,743,935	1,612,071,366	100.00 %

1. STIP as per Montana Code Annotated (MCA) sections 17-6-201, 202 and 204, requires investments by state agencies of available funds. The STIP unit value is fixed at \$1 for both participant buys and sells. The STIP portfolio may include asset-backed securities, commercial paper, corporate and U.S. government direct-backed U.S. government indirect-backed securities, repurchase agreements, and variable-rate (floating-rate) instruments to provide diversification and a competitive total rate of return.

According to the Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The BOI has adopted a policy to treat STIP as a 2a7-like pool.

2. The RFBP portfolio includes securities classified as corporate, foreign government bonds, U.S. government direct-backed, U.S. government indirect-backed, and cash equivalents. U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Unit values are calculated weekly and at month end based on portfolio pricing. Unit value at June 30, 2007 and June 30, 2006 was \$100.47 per unit and \$99.81 per unit respectively.

3. The MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities, American Depositary Receipts equity derivatives and commingled funds. Unit value at June 30, 2007 and June 30, 2006 was \$163.87 per unit and \$138.01 per unit respectively.

4. The MTIP portfolios for fiscal years 2007 and 2006 includes equity portfolios invested in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Security types may include ordinary common shares, preferred shares, convertible securities, American Depositary Receipts (ADR's), Global Depositary Receipts (GDR's), commingled funds and other global securities, as appropriate. Unit values are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Unit value at June 30, 2007 and June 30, 2006 was \$197.07 per unit and \$151.74 per unit respectively.

5. The MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. Private equity investments are long-term, by design, and very illiquid. Due to the complexity and specialization of private equity investment, the BOI contracts with external private equity managers to invest in venture capital, leveraged buyout and other private equity investments. Unit value at June 30, 2007 and June 30, 2006 was \$166.58 and \$135.55 per unit respectively. The unit value is calculated at month end.

6. The MTRP was approved by the BOI on April 26, 2006, to permit the state's retirement systems to participate in a diversified real estate portfolio. Effective June 1, 2006, the nine retirement funds sold \$30,035,000 of their STIP shares to fund the new Montana Real Estate Pool. The MTRP will invest with external real estate managers in both open-end and closed-end pooled funds. Each pension fund participant was issued units in the new pool at an initial unit value of \$100. Unit values are calculated on the close of the last business day of the month, and based on the portfolio fair value. The unit value at June 30, 2007 and 2006 was \$101.89 and \$100.00 respectively.

7. The AOF investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle" and applicable investment restrictions of the participants. The AOF portfolio includes securities classified as corporate, U.S. government direct-backed, U.S. government indirect-backed, equity index, real estate, mortgages and loans.

Real Estate Investments

100 North Park Building - In January 1996, the BOI, on behalf of the Public Employees' and Teachers' Retirement funds, purchased the 100 North Park Avenue Building in Helena, Montana as a real estate investment. Acquired for a cost of \$4,864,326, the building carries a fair value of \$6,500,874 as of June 30, 2007. During fiscal year 2007, building improvements for build-outs, heating/cooling, and leasing fees totaling \$352,187 were added to the cost of the building. Building improvements and leasing fees totaling \$64,607 were included in the cost of the building in fiscal year 2006. The three-story building provides office space for seven tenants.

2401 Colonial Drive Building - In August 1997, the BOI authorized the construction of an office building, as a real estate investment owned equally by the Public Employees' and Teachers' Retirement funds. Construction costs, including interest capitalization, totaled \$6,481,741 as of June 30, 2000. For fiscal year 2007, \$99 was capitalized for a composite plan of building and heating/cooling improvements. In fiscal year 2006, heating/cooling system improvements and leasing fees of \$93,257 were added to the building cost. The three-story building, providing office space for three tenants, was occupied in November 1999. As of June 30, 2007, the building carries a cost and fair value of \$7,183,950 and \$7,676,349, respectively.

2273 Boot Hill Court Building - In August 1999, the BOI authorized the purchase of a new office building in Bozeman, Montana. The Public Employees' and Teachers' Retirement funds purchased the building, in March 2004, as a real estate investment with equal ownership, for \$2,051,032. In fiscal year 2007 and 2006, there were no improvements made to this building. The building, located on state school trust land, is occupied by four state agencies. As of June 30, 2007, the building carries a fair value of \$2,082,014.

NOTE C. CONTRIBUTIONS

The TRS funding policy provides for monthly employee and employer contributions at rates specified by state law. Plan members are currently required to contribute 7.15% of their earned compensation and employers contribute 7.47% of earned compensation. The State's General Fund contributes an additional 0.11% of earned compensation. Each employer in the Montana university system shall contribute to the TRS a supplemental employer contribution currently at a rate of 4.04% of the total compensation of employees participating in the Optional Retirement Program (ORP). An actuary determines the actuarial implications of the funding requirement in annual actuarial valuations. The actuarial method used to determine the implications of the statutory funding level is the entry age actuarial cost method, with both normal cost and amortization of the accrued liability determined as a level percentage of payroll. The actuarial valuation prepared as of July 1, 2007, the most recent valuation date, indicates the statutory rate is sufficient to fund the normal cost and to amortize the unfunded accrued liability under the entry age actuarial cost method over 30 years. The unfunded actuarial accrued liability is included in the Schedule of Funding Progress.

The Montana State Legislature during the 2007 session infused \$50 million from the State's General Fund into the TRS pension fund to help address the unfunded actuarial accrued liability of the system.

NOTE D. FUNDED STATUS and FUNDING PROGRESS

Effective June 30, 2007, the TRS implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50 – Pension Disclosures. Our most recent actuarial valuation may be accessed on our website at:

www.trs.mt.gov/Board/ActuarialValuations/ActuarialValuations

The funded status of the TRS plan as of July 1, 2007, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) /c)
\$3,006.2	\$3,928.5	\$768.9	79.6%	\$664.1	115.8%

The TRS net Funded Ratio increased from 76.1% at July 1, 2006 to 79.6% at July 1, 2007. The improvements in the TRS funding are primarily due to additional contributions and favorable investment returns.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Valuation date	July 1, 2007
Actuarial cost method	Entry age
Amortization method	Level percent open
Remaining amortization period	28.6 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.50%
Guaranteed annual benefit adjustment	1.50%
Inflation rate	3.50%

The method of measuring the System's actuarial assets has changed since the prior valuation. Asset gains and losses are smoothed over a four-year period as of July 1, 2007, beginning with gains and losses over the year ending on June 30, 2007. As of July 1, 2006, the System's assets were measured on a market value basis, with immediate recognition of all gains and losses. The change to a four-year smoothing method was done to balance the need for responsiveness in the actuarial value of assets comparable with other pension plans. The amortization period of the Unfunded Actuarial Accrued Liability is 28.6 years using the four-year smoothing method and 18.3 years using market value.

NOTE E. SUBSEQUENT EVENT

The 2007 Legislature in going forward addressed the funding status of the TRS pension fund to help ensure the unfunded actuarial accrued liability (UAAL) can be amortized over a period not exceeding 30 years. Per Governmental Accounting Standards Board (GASB) statement number 25 the maximum acceptable amortization period is 30 years. Effective July 1, 2007 the employer contribution rate increased 2% from 7.47% to 9.47%. Beginning July 1, 2009 the rate will increase another .38% to a total of 9.85%. Also the supplemental contribution to ensure university member benefits are funded by university employers was increased from 4.04% to 4.72% of Optional Retirement Plan (ORP) member pay effective July 1, 2007.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress
(All dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) ⁽¹⁾	Present Value of Future University Supplemental Contributions	Unfunded Actuarial Accrued Liabilities (UAAAL) ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	UAAAL as a Percentage of Covered Payroll
July 1, 1998 ⁽⁵⁾	\$ 1,809.0	\$ 2,123.3	\$ 90.6	\$ 223.7	89.0%	\$ 529.8	42.2%
July 1, 1998 ⁽⁶⁾	1,809.0	2,342.7	90.6	443.1	80.3	529.8	83.6
July 1, 2000 ⁽⁷⁾	2,247.5	2,648.3	96.4	304.4	88.1	537.5	56.6
July 1, 2000 ⁽⁸⁾	2,247.5	2,652.0	96.4	308.1	87.9	537.5	57.3
July 1, 2002	2,484.8	2,980.1	111.8	383.5	86.6	563.2	68.1
July 1, 2004	2,485.7	3,359.2	115.7	757.8	76.6	600.7	126.2
July 1, 2005	2,497.5	3,527.0	126.2	903.3	73.4	612.6	147.5
July 1, 2006	2,745.8	3,733.6	124.7	863.1	76.1	636.0	135.7
July 1, 2007	3,006.2	3,928.5	153.4	768.9	79.6	664.1	115.8

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

(2) Actuarial accrued liabilities less actuarial value of assets and present value of future university supplemental contributions.

(3) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future university supplemental contributions.

(4) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

(5) Results of July 1, 1998 Actuarial Valuation.

(6) July 1, 1998 results adjusted for 1.5% GABA and \$500 minimum benefit for legislation which passed in Spring 1999 and the new salary scale adopted in November 1998.

(7) Results of July 1, 2000 Actuarial Valuation.

(8) July 1, 2000 results adjusted for \$600 minimum benefit for legislation which passed in Spring 2001.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Contributions from the Employer and Other Contributing Entities

(All dollar amounts in thousands)

Fiscal Year Ending	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions ⁽²⁾	Actual Employer Contribution % ⁽²⁾	Annual Required Contribution (ARC) % ⁽³⁾	Percentage of ARC Contributed ⁽⁴⁾
June 30, 1998	\$ 529,795	\$44,476	7.47%	7.47%	100%
June 30, 1999	543,071	44,987	7.47	7.47	100
June 30, 2000	537,507	48,376	7.58	7.58	100
June 30, 2001	567,861	51,524	7.58	7.58	100
June 30, 2002	563,163	51,519	7.58	7.58	100
June 30, 2003	597,131	53,277	7.58	7.58	100
June 30, 2004	600,728	55,774	7.58	7.58	100
June 30, 2005	612,622	57,150	7.58	7.58	100
June 30, 2006	635,997	158,962	7.58	10.45	223
June 30, 2007	664,140	112,664	7.58	11.64	130

- (1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll (less ORP and term pay contributions) divided by the contribution rate expressed as a percentage of payroll.
- (2) The actual and required employer contributions are expressed as a percentage of payroll. Contributions for termination pay of \$6,221,313 and supplemental university contributions of \$6,103,160 are included in the \$112,664,252 actual employer dollar contribution, but are not made as a set percentage of payroll, and do not help to satisfy the ARC. Therefore, they are not included in the 7.58% employer contribution shown in this exhibit, or the calculation of the percentage of ARC contributed. The \$50 million one time contribution made by the State in FYE 2007 and the \$100 million one-time contribution made by the State in FYE 2006 are included in the employer dollar contribution, and the calculation of the percentage of ARC contributed, but are not included in the 7.58% employer contribution shown in this exhibit.
- (3) The State makes employer contributions as a percentage of actual payroll. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the Annual Required Contributions (ARC) is equal to the actual dollar amount of the required employer contributions. The 2007 ARC was determined in the July 1, 2005 valuation as the amount needed starting July 1, 2006 to maintain a 30 year amortization period.
- (4) This is the Actual Employer Contribution expressed as a percentage of the product of the ARC percent and the Covered Employee Payroll.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

Actuarial Cost Method

The actuarial valuation was prepared using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The normal cost was first calculated for each individual member. The normal cost rate is defined to equal the total of the individual normal costs, divided by the total pay rate.

The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets and (b) the actuarial present value of future normal costs is called the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized as a level percentage of the projected salaries of present and future members of the System.

The ultimate cost of any pension program over time equals the benefits paid and expenses incurred while administering the program. The source of revenue used to pay for this cost is equal to the contribution from employers and employees to fund the program, plus investment return earned on contributions made through pre-funding the benefit payments.

Valuation of Assets - Actuarial Basis

Assets are valued based on their market value, with a four-year smoothing of all market value gains and losses. The expected return is determined for each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years. The gains and losses are measured starting with the year ended June 30, 2007 (adopted 7/1/2007). The method of measuring the System's actuarial assets has changed since the prior valuation. Asset gains and losses are smoothed over a four-year period as of July 1, 2007, beginning with gains and losses over the year ending on June 30, 2007. As of July 1, 2006, the System's assets were measured on a market value basis, with immediate recognition of all gains and losses. Prior to 2006, asset gains and losses were smoothed over a five-year period.

Inflation Rate

The assumed inflation rate is 3.50% per annum, compounded annually (adopted 7/1/2004).

Investment Earnings

The annual rate of investment earnings of the assets of the System is assumed to be 7.75% per year, compounded annually. (Adopted effective July 1, 2004)

Guaranteed Annual Benefit Adjustment Increases

On January 1 of each year, the retirement allowance payable must be increased by 1.5% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

Future Salaries

The rates of annual salary increases assumed for the purpose of the valuation include an assumed 4.5% annual rate of increase in the general wage level of the membership plus a variable merit and longevity rate from 0% to 4.51%. The merit and longevity increases for the Montana University System (MUS) members did not show a pattern of increasing or decreasing with service at the time of our most recent study. Therefore, the MUS members have a flat 1% merit and longevity assumption. The general wage increase assumption was adopted July 1, 2004 and the merit and longevity scales were adopted July 1, 2002.

MUS members are assumed to have a 0.63% higher average final compensation to account for the larger than average annual compensation increases observed in the years immediately preceding retirement.

Amortization Method

The unfunded actuarial accrued liability created by this method, including gains and losses, is amortized as a level percentage of the System's projected payroll.

Amortization Period

The amortization period of the unfunded actuarial liability over an open period is 28.6 years as of July 1, 2007.

**TEACHERS' RETIREMENT SYSTEM
A COMPONENT UNIT OF THE STATE OF MONTANA
SUPPORTING SCHEDULE
FISCAL YEARS ENDED JUNE 30, 2007 AND 2006**

ADMINISTRATIVE EXPENSES

Expenses for the administration of the plan, excluding compensated absences, depreciation and amortization, are budgeted and approved by the TRS Board. The administrative costs of the TRS are financed through realized investment income. The expenses, less amortization of intangible assets, may not exceed 1.5% of retirement benefits paid. Administrative expenses for the fiscal years ended June 30, 2007 and 2006 are outlined below:

	<u>2007</u>	<u>2006</u>
Budgeted Expenses:		
Personnel Services:		
Salaries	\$ 675,800	\$ 628,364
Other Compensation	2,750	2,450
Employee Benefits	205,418	186,284
Total Personal Services	\$ <u>883,968</u>	\$ <u>817,098</u>
Operating Expenses:		
Contracted Services:		
Personnel Management	\$ 1,045	\$ 6,146
Actuarial Services	55,685	133,216
Legal Services	7,091	3,076
Medical Evaluations	390	205
Audit Services	14,773	17,771
Information Technology		
Services	13,520	117,058
Other Contracted Services	139,709	150,158
Supplies & Material	25,350	32,806
Communications	33,289	39,466
Travel	21,817	12,375
Rent	48,046	44,915
Repair & Maintenance	42,235	56,207
Other Expenses	48,926	49,734
	\$ <u>451,876</u>	\$ <u>663,133</u>
Non-Budgeted Expenses:		
Compensated Absences	\$ 14,008	\$ 8,811
Depreciation	5,403	5,403
Amortization of Intangible Assets	78,848	84,710
Total Non-Budgeted	\$ <u>98,259</u>	\$ <u>98,924</u>
Total Administrative Expense	\$ <u>1,434,103</u>	\$ <u>1,579,155</u>

TEACHERS' RETIREMENT SYSTEM



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BRIAN SCHWEITZER, GOVERNOR

STATE OF MONTANA

November 2, 2007

Scott A Seacat
Legislative Auditor
Room 160 State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

The Teachers' Retirement Board appreciates the services provided by your staff in reviewing the financial statements of the Teachers' Retirement System. This past year the funded ratio of the System increased from 76.1% at July 1, 2006, to 79.6% at July 1, 2007, while the amortization period decreased from incalculable to 28.6 years. The improvements in the Systems funding are primarily due to additional contributions and favorable investment returns.

Thank you for the opportunity to reply to the audit report for the Teachers' Retirement System. Once again, we are pleased with the unqualified opinion on the financial statements for the two fiscal years ending June 30, 2007.

Sincerely,

A handwritten signature in cursive script, appearing to read "David L. Senn".

David L. Senn
Executive Director